

## **Testimony of Scott Teter**

### **Michigan Assistant Attorney General**

#### **House Committee on Banking and Financial Services**

#### **The Joint State-Federal Servicing/Foreclosure Settlement**

Mortgage Modification Scams are charged under Michigan's False Pretenses statute. It is classified as a property crime. I have been a prosecutor for almost 20 years and have prosecuted many different crimes including homicide, sexual assault, domestic violence, Medicaid fraud, breaking and entering, arson, etc but this crime is unique. It is a property crime but it causes the emotional devastation of an assaultive crime. It has the same effect as someone burning down your house or dropping a bomb on it but with the added humiliation that you feel partly responsible because you picked the person who victimized you and your family and you paid them. This crime doesn't just take your money. For many of our victims it cost them their homes and their financial stability. The first instruction by the scammer is to stop making their house payment and stop talking to the bank and the scammer would take care of everything. By following that advice they lost their homes to foreclosure. By losing their home they lost their families stability, their anchor to the community, their security, their dignity. Many times these families have been forced to leave the community to find housing resulting in children losing their school, and their friends. The victims in these cases have been forced to look into the eyes of their children and explain they must move because they put their faith in someone, paid them money and that person lied to them and now we are losing our home. After the foreclosure, their credit is ruined, they can't get another loan and some lack the financial resources to pay 1 months rent and 1 months security deposit for a rental. The dream of home ownership is gone. Some have moved back in with their parents after owning a home for 15-20 years. The sense of failure and desperation is devastating. Many marriages do not survive this crisis.

How did this happen? As this settlement illustrates, many larger banks did a terrible job servicing the loans they were holding. When the crisis hit, responsible homeowners were calling the banks to explain their circumstances and to seek help when they were not able to make their payments. The banks gave conflicting advice, lost paperwork that was submitted, and failed to have internal procedures that would stop the foreclosures while the customer worked on a loan modification (dual tracking) so the customer was misled into thinking the problem was being resolved while the bank was still speeding through the foreclosure process.

When homeowners could not get answers, information or assistance it created an entire market for scammers to slap up a sign, a website or an advertisement promising to listen and to help. They were the only people in the market that were promising to help. That perfect storm created an opportunity for financial predators to exploit responsible homeowners around our state who were legitimately trying to work with the bank to meet their obligations and keep a roof over their families heads despite having lost jobs or incomes due to the nationwide economic meltdown. We have a unique opportunity with this settlement to do something we can rarely do in financial crimes, we can pay back to victims the money they paid to the criminals instead of just giving them a piece of paper that says the person we sent to prison owes them money that they will never see. The victims in these cases are still in financial crisis, many of them are still trying to save their homes or trying to find alternative housing here in Michigan. This is their home, they want to stay here.

This crisis is not over. We receive complaints almost daily from new victims of yet another modification scam. The number of victims for each new modification scam range from 10-420 people. We have prosecuted cases all over the state resulting in orders for restitution for \$5,000 to \$1.2 million. We have sent many of these people to jail. We have many cases pending that will result in jail sentences and some prison sentences. Through your work I now have increased penalties on False pretenses charges that apply to conduct after January 2012. Our office has 69 pending investigations, with almost 1,000 victims and nearly \$2 million in restitution.

This is a relatively short term but intense crime wave that resulted from the circumstances I have described. It is like a financial forest fire. These companies have a life cycle where they open, they take in lots of money and clients, they don't do the work, the complaints start coming in to the Better Business Bureau and to the AG's office, and then the company closes or we close it and they start another company and begin the process again. The only way to stop them is to prosecute the individuals behind these companies. That requires resources. Unfortunately, with the explosion of this type of crime the present resources to respond are insufficient to meet the short term demand. We are investigating and prosecuting as many cases as we can but we are way behind. The expected life cycle of this industry and the resulting prosecutions should be another 3-4 years. With the additional resources requested by the Attorney General it would allow us to address the large backlog of complaints that have come in and continue to come in. Many of the companies we are receiving complaints on are still operating and still creating more victims. We need the additional resources to deal with the problem sooner rather than later. It is far better to catch them while they are still open and shut them down than to try to find them after they have completed the crime and moved on.